capital, renders the nation degenerate and miserable, makes the mass of citizens tributary to a few, and with the exhaustion of all the sources of private wealth arrests the natural increase of the public revenue and makes it decline.

This last effect, through the threatening gravity with which it manifests itself today in Italy, has made sensible the material and moral damage of the entire system, has alarmed the country and furnished the germs of a vigorous reaction, and every day shows more clearly the connection between the financial problem and the economic condition of the country.

WILLIAM HILL.

HONEST MONEY.

IN both England and America great hopes are entertained by some from an improved monetary system. This seems the case in America much more than in England. It is likely, therefore, that a book by Mr. Fonda, published in America and entitled *Honest Money*,[1] will have a considerable sale. It is not a large book, and I cannot agree with the proposal Mr. Fonda makes. But it attempts to grapple with a difficult subject in a scientific manner. That alone is a good deal in these days of unscientific twaddle about bettering the lot of the workers by hindering the trade and prosperity of the country.

With some of the statements all readers of the book must have sympathy. For instance, in the preface, after describing the superabundance of wealth and facilities for production side by side with want of employment and poverty it is stated: "This is a condition that is certainly as wrong as it is unnecessary." I cordially agree that it is both unnecessary and wrong, but I do not agree that the faulty monetary system even of the United States is competent to account for all this or even for the great fluctuations to which Mr. Fonda attributes this state of affairs. The people of the United States of America have not yet thoroughly learnt that they will be most benefited by engaging in the most profitable employment their country affords and buying from their neighbors what they can get in that way more easily than by producing it themselves. Moreover, it is not very long since we in this country read that the workmen in the United States were engaging in a strike on the scale on which Americans like to do everything—the most gigantic on record. It must not be imagined that such things can take place without causing great fluctuations in prices. And work-

[1] *Honest Money*, by ARTHUR I. FONDA. New York, 1895.

men cannot complain that a faulty currency throws them out of employment when they have remunerative work offered but refuse it because it is not more remunerative.

At the same time, however, there can be no denying that the currency of the United States beats the record for badness, although other currencies are not perfect. It will hardly be denied that a good currency is essential if price fluctuations and trade depressions are to be avoided. To this extent at any rate Mr. Fonda's contention is true. A further contention of his is also worthy of attention, that the first and most important requisite of a currency is stability of value. Invariable value of the standard, he rightly holds, should be regarded as much more important than any attempted uniformity with the standards of other countries. But, roughly speaking, this is the extent of his progress towards a solution of the currency problem.

It is impossible here to discuss Mr. Fonda's preliminary statements as to the nature of value. They are similar to and based upon the definitions of several economists. A general rise or fall of prices he regards as an alteration in the standard. For this also he quotes authorities. It is generally true, and any attempt to qualify the statement here would raise points of such nicety as perhaps to create more confusion than their solution would dispel. But it is essential to raise a question which though less abstract has nevertheless hitherto escaped attention. Mr. Fonda assumes that such an alteration in the standard is an alteration in the value of gold. He tacitly accepts all that is implied in the phrase gold standard. He does not attempt to discriminate between different causes of the fluctuations of prices. Doubtless he would not deny the existence of such varying causes. But whatever the cause of fluctuation he regards the value of gold as having varied.

That this was not the case Professor Jevons clearly realized, and it is a matter for wonder that an intellect so strong and subtle as his was should not have gone further in the understanding of the subject. He practically confessed, however, that there was a problem still unsolved. In ascertaining the fall in the value of gold which followed the discoveries in California and Australia, Jevons distinguished between the rise and fall of prices through variations in trade from the rise of prices by which he endeavored to prove the fall in the value of gold. He must have been acquainted with the view that any general rise or fall of prices was an alteration in the standard. It was obvious that a

rise or fall in the ratio of one thing to all others was more likely to be a change in that one thing than in all the others. That is the variation in the standard in the view of Mr. Fonda and many economists. And yet the change Jevons sought and found was still another change independent of this. It is remarkable that he did not then see the difference between the standard and the value of gold. The standard must vary with every general rise or fall, and the change in the value of gold was independent of that variation; though the two changes were so interwoven as to make the problem a much more difficult one. When the subject is properly understood it will be seen that the free and unlimited coinage of gold at a fixed price, which gives the expression gold standard, only partially links the standard to the value of gold. The value of gold as fixed by supply and demand will have an influence on the standard because the standard is to some extent tied to that value by the currency arrangements. The fluctuations in the value of gold are at the same time hidden by the fixing of its price. The other means of visibly representing money, namely silver and paper, or credit, have a considerable influence, and the standard we, in England, know as a pound and divided into shillings and pence is a very different thing from the value of a weight of gold. This Mr. Fonda has not realized.

Another theory he adopts without question, namely, that the precious metals are a wasteful form of currency. Several economists have regarded the use of the metals for monetary purposes as much more wasteful than the use of paper. Great stress is laid upon the high value of those metals. But it seems to be forgotten that their use for other than monetary purposes is chiefly ornamental and not useful in the strict sense. Indeed it would almost appear that this notion of wastefulness regarded the metal used in the currency as all consumed. Even granting, however, the waste which must take place through wear and loss of coins a little consideration must show that the loss of labor would be greater if paper had to do the work of coins. With the wear undergone by the average coin, paper would be quickly unfit for further use. There can be no doubt that metal is the more convenient material for the sums of money which, when coined, it represents, although paper is more convenient for larger sums.

Passing to the actual scheme, which is the issue by government of a paper currency based on the prices of a number of commodities, the first question which arises is how, under the paper currency proposed,

the very small denominations of money would be represented. Would paper notes be issued for sums of a few cents? That would be most inconvenient. If metal of any sort were retained, at what point would it stop? How would an unfailing supply of metal be secured? The constant supply of the exact amount required is the very problem to be solved.

The scheme proposed is in fact nothing more nor less than an inconvertible paper currency. No doubt Mr. Fonda would admit this, although the currency can at any time be converted by the holder into any commodity he wishes, at the market price. The paper currencies called inconvertible are always convertible at some rate. They are called inconvertible because they are not convertible at a previously fixed and known rate. This is exactly the case with Mr. Fonda's proposed currency. It would be convertible at the market rate into commodities. If there were any desire to convert it the market rate of commodities would be high and trade would be good: if there were no such desire the market rate would be low, and trade would be bad. To imagine that the government could so control the amount of the currency that its actual purchasing power would conform to the standard on which it was based is begging the question.

Suppose, however, there was great desire to convert the money into some particular commodity. This is the point at which the weakness of the scheme appears. We are not told what market would be taken as the basis of calculation. It is stated that the market might vary for different commodities, but the principle of selection is not suggested. If the place where prices were usually highest were taken the currency would be inconvertible to a correspondingly higher degree. Less commodities would be given for the money. But suppose that in every case the market taken was nearest the place of production of the commodities, and consequently that in which the particular prices were usually lowest. This would only mean that with the paper currency persons needing a certain commodity could buy that commodity (or ask the government to buy it for them) at the lowest market price for the time being. That is the relationship of any inconvertible currency to gold. The suggested money confers no great privilege, and if gold were wanted difficulties might arise.

In the United States gold is produced. With other countries there would be greater difficulty. But even in the United States, as gold would not be any essential portion of the currency, its value would

probably at first fall. It would then tend to leave the country or be consumed in the arts. Doubtless some stock would remain on hand. But as no one would be under liability to pay gold, no one would feel himself responsible to provide for the contingency of an abnormal demand. In the absence of such provision there would inevitably arise times of great scarcity of gold. Whilst other countries used gold, American merchants would probably contract debts in the currencies of those countries, and would then have to meet their bills with gold. Gold would become high in price, turning the exchange against those merchants beyond the amount arising from the ordinary balance of trade. When, therefore, after a short period of comparatively brisk trade and rising prices, the top price was reached, and there was no further speculation, and when, accordingly, bills ceased to be created, there would be great call for gold. Holders of good bills might buy it at the market price; so also, and not otherwise, might holders of the currency. The difficulty of obtaining the gold would be such as in itself to cause a panic. The additional money required to buy it for payment of debts would prevent merchants buying other commodities. This would cause stagnation in trade and lowered prices—the very thing to be avoided.

Suppose, however, the merchants refuse to contract in any currency but their own. The result would be the same. Any international trade supposes a par of exchange, and even though all the bills of merchants were in dollars, the exchange would of necessity be such as to compel American merchants to pay the high price of gold. The drawers of those bills must have gold to pay their own debts. They cannot take American paper currency for the purpose.

The necessity for uniformity of standard may not exist, but there must be a connection between two standards if trade in the ordinary sense is to be carried on between the two countries. Without a par of exchange the trade becomes simply the barter of African savages. The foreign creditor must moreover have what is to him money when he has debts to pay: it is useless to offer any commodities except such as will serve him for that purpose. It is erroneous to say as Mr. Fonda does that no one wants the gold except to exchange for commodities. People sometimes want it to pay their debts with. Suppose the currency of another country stretched to its utmost limit by means of credit sustained by good trade and high prices. The slighest slackening of trade in that country would accordingly cause great demand

for gold just when prices were at their highest point. And this demand would be felt in just the same way in the country which had Mr. Fonda's scheme; for the foreign creditors would require gold, not commodities. It must be remembered that the turn comes when the top of the wave is reached. The result of being without the generally required commodity would be disaster to the country. Mr. Fonda however regards such a need for gold as a matter of indifference. He thinks there would in fact be more gold for the purposes of the foreign trade. No doubt so there would for a time, but the foreign trade would take it away and then there would be comparatively none. The greater part of the nation would forget all about it until they really must have it, with the result that a panic would then set in. The necessity for using gold for internal circulation has at least some influence in compelling the people to have some regard to the available stock of metal when they make their contracts.

To all this no doubt Mr. Fonda would reply that a gold panic amongst the people engaged in foreign trade would be of small moment compared with a fluctuating standard for internal trade. In answer to the suggestion already made that a gold panic would cause a fall in the prices of other commodities he would probably point out that such a fall has been provided for. More money would at once be issued and the prices quickly raised again. The strong point, if anything about the scheme, is the supposed accomplishment of this object. Let us therefore leave to their fate the foreign merchants who cannot get their bills renewed, because exporters must have gold, and notice the effect on internal circulation. The gold panic would simply be one of the causes of a panic in the usual sense. Or it might be brought about by another cause and merely intensify the effect of the first cause. Without doubt the price of gold would move slowly in ordinary periods and exporters and importers would alter their rates according to the condition of supply and demand. But a necessity for gold would be a possible cause of a crisis.

In the first place the idea is expressed that no panic could occur with a government standing ready to issue money as required. There is a good deal in having such an impression abroad. But that could be accomplished by an exceedingly small modification of the English system. What would occur under Mr. Fonda's scheme may be seen on a little consideration. It must be realized that the country is on the crest, so to speak, of a wave of high prices. For that reason under

Mr. Fonda's scheme government will have been withdrawing money and raising the rate of interest.

This withdrawing of money must be noticed. After the standard is once fixed a corps of statisticians are to tabulate the current market prices. As the aggregate for the specified quantities of all the commodities shows prices to have risen or fallen money is to be withdrawn or more issued until the daily total corresponds with the standard total. At once it should be said that this clearly shows a misunderstanding of the subject. The withdrawing of money will not of itself lower prices. It will probably only leave more to be done by means of bills of exchange and open credit. If the trade is good some means of exchange will be found or made. No trader will wait for government paper when he has a good profit offered in a safe individual's paper. It is another matter when a definite and scarce metal is required, though even the diminishing of that will not lower prices immediately.

We are to suppose, however, that prices have been getting higher and money has been withdrawn. Under these conditions a small thing will cause an impression that prices are about to fall. The effect will follow the impression. Another effect will be that legal tender money must now be had. People do not go on renewing bills under such circumstances. This is the testing time for the scheme. Interest is variable. Paper money can be issued on securities. But the idea lying at the foundation of the scheme is the issuing of money in quantities fixed according to the prices of commodities. This, which Mr. Fonda no doubt regards as the strong point, is the weak one. It supposes an absolutely immediate connection between the money market and the commodity market. Such connection does not exist. There are two distinct markets.

It is not difficult to imagine a genial official chief statistician and controller suavely expressing his regrets that he is unable to issue more money as the returns are not yet to hand. This would be possible if there were an immediate connection between commodity and money markets. But the difficulty is seen to be intensified when the facts are considered. A commodity merchant might come away from the commodity market where he had made purchases at high prices in the early morning. On those prices or even those of the day before the government control would be based. The merchant might then find that either on account of something in the money market itself or of some

solitary market quite remote from his own and the bulk of the markets there was a disinclination to renew bills and a rush for money. The panic would occur that day. On the morrow, or at least some hours after, the government, having obtained news of the fall of prices, would come blustering up with a supply of money. But the mischief would have been done. The falling prices would go on falling. Merchants, bankers, money brokers, and others, after a few hours suspense, and knowing that prices have fallen, do not go in great haste to buy on speculation. They wait until prices have touched bottom again.

The creation of money does not necessarily raise prices. It is the money which is used which raises prices, not that which exists. All experience proves that England at present is fully realizing this, and the using depends on and follows the trade. It does not govern and iuduce it.

The scheme entirely ignores the important factors of rapidity of transfer of money and the creation of virtual money in the shape of credit. The same amount of legal tender money will do more or less work according as it is transferred more or less rapidly. If there is a demand for commodities at a profit the commodities will be supplied and the money must come afterwards. Indeed it is absolutely courting disaster to withdraw money when the great demand for commodities as shown in the higher prices proves that in a short time money will be required to pay for those commodities. The prices are influenced when bargains are being made, not when the money is paid. On the natural system, the creation of bills sets in motion a force which gradually diminishes its creation by raising discount rates. But at the same time by means of the discount rate it tends to induce a supply of money from elsewhere ready for the demand. The moment the bills come into the market they have their influence. There is all the difference in the world between, on the one hand, allowing the discount rate not only to diminish demand but also to increase supply, and, on the other hand, withdrawing money just before it is wanted. The one gives natural elasticity, the other artificial bumping. The latter leaves all the money to be supplied at the moment when prices have taken a turn downwards, and that by the brilliant rapidity of motion of government returns and officials. Suppose however that not a genial official but an official genius by some marvelous arrangement could determine when money should be issued. He would of course require security. That would be required under any good system. But instead of supply-

ing money as required by the money market he supplies it inversely as required by the commodity market. When much is being done it must be done by merchants' bills of exchange. When little is being done there will be a large quantity of government paper with which to do it. The crest of the wave we have noticed. The trough is occupied by much money and little trade. Now, if it were metal capable of being conveyed away to raise prices elsewhere, this effect might be brought about. But it is paper, useless except in America. No one would borrow it. If they did, and any effect were produced on prices by its influence, it would be because of the existence of more money, not by increased demand. In other words, instead of more consumable wealth being produced to exchange elsewhere, all prices would be raised to the advantage of the possessors of land and wealth and the disadvantage of the whole nation, who are consumers. The prices would be raised out of proportion to the prices of other places, with the result that other countries would continue the trade, and the country with the honest-money scheme would be kept out of the markets.

The whole proposal seems based on the idea that trade exists for money and not money for trade; that if a nation has money it will buy and sell; not that if people wish to buy and sell they will use money. I am not familiar with the exact circumstances of American currency but I am sure of one thing — the people of the United States do not require more money or they would very quickly have it. If any responsible men will put bills into the market they can have them discounted. Moreover, if the people who are hindering trade by their artificial contrivances will let it alone and allow some profit to be made, the bills will be put into the market. If any people have commodities or labor to sell, they must be dull if they have not before this learnt that the way to accomplish their object is to lower their prices. The rise will follow when they have induced the demand.

The truth is that on all hands too much is made of money and too little is made of the exchange for which money exists. In America, just as perhaps to a smaller extent in England, every means suggested for increasing prosperity is something to raise prices. Yet every one should know not only that if he wishes to sell he should lower his prices, but also that if he wishes to buy he would like his neighbors' prices lowered. Every man may wish his own selling prices raised but to raise them by something which raises prices all round is obviously useless. The lowering every man can accomplish for himself,

and if every man does it the nation will do it. Again, if the nation wishes to sell, the method is the same. No good can come of raising its prices. If it wishes to buy it is not served by raising the prices of other nations. If it does not wish to buy it should keep its own prices low by avoiding everything which will increase the cost of production. Failing such low prices the foreigner will bring his goods to sell. That in itself will not be an evil, but the blessing will be diminished if, finding prices are too high, he takes back bonds instead of goods. This does not indicate any of the need for more money, which seems to be the cry, but for more production at lower prices. The currency cannot be neglected. But the need is for more elasticity, which a more natural system alone can give. Perhaps the plan which most nearly approaches perfection up to the present is that by which the Bank of England "attempts in a feeble way," as Mr. Fonda puts it, "to regulate the volume of money." It still requires to be made somewhat more elastic. But Mr. Fonda's plan, so far from being an improvement on it, would give a currency much less elastic. If he wishes to benefit the people of the United States in the matter of their monetary system he must try again.

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